VZCZCXRO1922
PP RUEHFL RUEHNP
DE RUEHRO #1489/01 3441203
ZNR UUUUU ZZH
P 091203Z DEC 08 ZDK
FM AMEMBASSY ROME
TO RUEHC/SECSTATE WASHDC PRIORITY 1283
INFO RUEATRS/DEPT OF TREASURY WASHDC
RHEHNSC/NSC WASHDC
RUEHLO/AMEMBASSY LONDON 1527
RUEHFR/AMEMBASSY PARIS 2473
RUEHBS/USEU BRUSSELS 4702
RUEHNP/AMCONSUL NAPLES 3490
RUEHMIL/AMCONSUL MILAN 9699
RUEHFL/AMCONSUL FLORENCE 3327

UNCLAS SECTION 01 OF 02 ROME 001489

SENSITIVE
SIPDIS

E.O. 12958: N/A
TAGS: EFIN ECON IT
SUBJECT: ITALY PROPOSES (OVERLY?) MODEST ECONOMIC STIMULUS PACKAGE

¶1. (U) Summary: The economic stimulus package the GOI announced on Nov 26 is small compared to its EU neighbors', partly because it believes Italy's financial sector doesn't need much help, but primarily because the government's already high indebtedness precludes a more ambitious program. Critics maintain the measures are too timid to achieve effective economic stimulus or to provide meaningful relief to families and businesses. End Summary.

The Package

¶2. (U) On November 26 the government of Italy (GOI) announced an economic stimulus package in the context of G20 and EU-wide coordinated efforts to address the global economic downturn. The plan consists of a mix of measures aimed at households, businesses and the financial sector, amounting to a modest one percent of GDP, approximately euros 16 billion. In comparison, France, UK and Germany have announced stimulus plans in the 4-5 percent of GDP range. The largest portion of the package is a government commitment to guarantee euros 10-12 billion of new bank debt. Within a week of announcing the plan, however, the GOI's economic team postponed implementation of the bank-support portion, noting it's not needed for now. The provisions of the package go into force immediately, but the "decree law", akin to an executive order, must be converted into law in the legislature within 60 days. Amendments to the legislation are likely.

Help for Households

¶3. (U) Assistance to households consists primarily of direct cash or quasi-cash payments to the lowest income families (about 8 million people with incomes below euros 20,000 a year) and relief for variable rate mortgage holders whose mortgage rate rises above 4%. Post banking sector contacts believe the latter's cost to the government will be limited, because interest rates are already low (average mortgage rate is 5.1%) and falling, and because only 30% of Italian households have mortgages in the first place. Approximately 130,000 families are potentially eligible for this relief. The government will also implement a measure included in the 2008 budget approved in August, to provide euros 40 a month, through so-called "social" debit cards to 1.3 million people with incomes lower than euros 8,000 a year. Finally, highway toll increases will be suspended for the first half of 2009.

Assistance to Business

¶4. (U) For businesses, government assistance is equally modest. It consists primarily of deferring Value Added Tax (VAT) payments due the government to the moment a business books a final sale, as opposed to when it makes an intermediate procurement. The

government will also lower slightly the 5% regional business tax.

Bank Support Package

¶5. (U) The financial sector assistance portion of the package - now deferred indefinitely - provides for the government to underwrite and guarantee up to euros 12 billion in new bank bonds. The aim is to allow banks access to new funding from investors in order to maintain the flow of bank credit to the real economy. The government also proposes to abolish the 15% limit in bank capital that non-bank companies may own.

Lukewarm Reaction

¶6. (U) Opposition politicians and some analysts criticized the stimulus as too modest, for differing reasons. The largest trade union federation intends to proceed with a scheduled nation-wide strike December 12 to protest what it charges are "beggars' alms" in the household assistance component of the package. Serious economists, including in the Central Bank, note that the euros 6 billion core of the stimulus package (excluding the portion for banks) is almost fully offset by spending cuts, tax increases and the elimination of other tax benefits, yielding a near zero impact on GDP. A leading think tank laments that Italy is fast approaching a condition of permanent economic malaise. It argues that there is no point in the government trying to hold the line on its debt/GDP ratio if it means allowing GDP to fall severely in the short term and remain sluggish in the medium and long terms.

¶7. (U) Comment: The scope and limited size of the package could be explained on two counts: first, that the GOI is convinced Italy's financial sector remains relatively unscathed by the financial meltdown elsewhere; and second, that the government has limited room to maneuver on the fiscal policy front given its already high indebtedness. [Note: Official debt exceeds 104% of GDP and annual interest payments equal 11% of government revenue. End-Note] A further possibility is that the GOI may be looking to keep other policy options open in the event a second stimulus package is needed later next year. [The OECD forecasts that Italy's recession will be deeper and longer than most of its peers: Italy's GDP will decrease by 0.5% this year and by 1% next year. End-Note]

SPOGLI